

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Wiggins Analyst: Darrine Distefano Bill Number: AB 44

Related Bills: See Prior Analysis Telephone: 845-6458 Amended Date: 08-20-2001

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Disaster Loss Deduction/2000 Earthquake

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

X FURTHER AMENDMENTS NECESSARY.

X DEPARTMENT POSITION CHANGED TO SUPPORT.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED March 20, 2001 STILL APPLIES.

OTHER - See comments below.

SUMMARY

This bill would allow taxpayers special tax treatment, called disaster loss treatment, for losses sustained as a result of the earthquake that occurred in September 2000 in Napa, California.

SUMMARY OF AMENDMENT

The August 20, 2001, amendments do the following:

- Includes in the Governor's proclamation of a state of emergency for the County of Napa any loss sustained from the earthquake that occurred in September 2000.
- Conforms excess disaster losses to the increased net operating losses (NOLs) percentages allowed by existing law.
- Adds an operative date to clarify that the increased NOLs would apply to disaster losses incurred during or after September 2000.

Although the amendments conforming to the NOL percentages resolved the department's policy considerations identified in the original analysis, they bring up a technical consideration that is explained below. Conformity to existing NOL percentages requires a new revenue estimate, which is provided below.

The remainder of the department's analysis of the bill, as amended March 20, 2001, still applies.

Board Position:

<u>X</u> S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ PENDING

Legislative Director

Date

Brian Putler

09/05/01

POSITION

Support.

At its June 27, 2001, meeting, the Franchise Tax Board voted 2-0 to support this bill as amended on March 20, 2001, with Annette Porini, on behalf of Member B. Timothy Gage, abstaining.

Summary of Suggested Amendments

Amendment 1 has been provided to correct a technical consideration.

TECHNICAL CONSIDERATIONS

Amendment 1 would correct an inaccurate reference to the Bank and Corporation Tax Law (B&CTL) NOL section under the Personal Income Tax Law (PITL) provisions.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in revenue losses as shown in the following table:

Estimated Revenue Impact For AB 44 (Napa Earthquake) (In Millions) Fiscal Year Impact		
2001-02	2002-03	2003-04
Minor Loss	Minor Loss	Negligible Loss

Negligible Loss = Less than \$250,000

Minor Loss = Less than \$500,000

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this proposal.

Revenue Discussion

The impact of this bill will depend on the amount of disaster losses claimed in the prior year, carried forward at 100% and the amount of carryover losses deducted in subsequent years.

The estimated losses were determined in several steps. First, the total amount of damages for the Napa earthquake was based on information from the Office of Emergency Services (OES). According to OES, damages were estimated to be approximately \$55 million, of which \$50 million is estimated to be for private property damages. It is estimated, based on historical data that approximately 10% of damages will be reimbursed by insurance coverage. In total, the revenue loss over a period of a few years is estimated to be approximately \$1 million, with approximately 10% attributable to the B&CTL and the balance to the PITL.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 44
As Amended August 20, 2001

AMENDMENT 1

On page 4, line 5, strikeout "24416" and insert:

17276